

Horizon Investment Services, LLC

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Form ADV, Part 2A Brochure

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This Brochure provides information about the qualifications and business practices of Horizon Investment Services. If you have any questions about the contents of this Brochure, please contact us at 219-852-3215 or email thathoot@horizoninvestment.com. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Horizon Investment Services is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training.

Additional information about Horizon Investment Services also is available on the SEC's website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

This section of the brochure discusses only the material changes that have occurred since Horizon's last annual update. Since this is Horizon's initial Disclosure Brochure, there are no material changes to report in this section.

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Item 4 - Advisory Business

Horizon Investment Services ("Horizon") was established as an LLC on November 14, 1997. Horizon is wholly owned by Horizon Management Services, Incorporated ("HMS").

Horizon provides discretionary and non-discretionary investment advisory and investment sub-advisory services to clients.

Discretionary clients are provided with the full range of investment supervisory services, which include, but are not limited to, the following:

- (i) working with the client to establish appropriate investment objectives for the client's portfolio;
- (ii) making asset allocation decisions within the portfolio in accordance with those set objectives;
- (iii) making day-to-day investment decisions for the client's portfolio;
- (iv) executing transactions for the portfolio; and
- (v) providing materials necessary for monitoring results in an accurate and relevant manner.

For non-discretionary clients, Horizon will monitor the client's account and make recommendations to the client as to which securities the client should buy or sell and the amounts to be bought and sold.

Horizon provides investment advisory services to the clients of other financial institutions, including unaffiliated wrap programs. Under those circumstances, Horizon will not work with the client to establish the client's investment objectives or make asset allocation decisions, but will merely manage the account in accordance with the instructions of the financial institution that has retained Horizon and the investment objective of the underlying client. Horizon's investment decisions and management of wrap fee accounts is consistent with how it manages its non-wrap fee accounts. Horizon receives its management fee from the sponsor of the wrap program who charges its client a single fee for all expenses related to the investment advisory services.

Horizon also participates in advisory programs where it provides model portfolios to the program sponsor through a licensing arrangement, which allows the model portfolios to be utilized by intermediaries who participate in the program on behalf of their clients. Horizon has complete discretion with respect to the formulation of these models, and does not create (or adjust, as needed) the model portfolios to meet the particular needs of the end-users of the model, including intermediaries participating in the program and their clients. Horizon has no knowledge of the purchases/sales of the securities that comprise the model by the end-user of the model.

Horizon also provides investment management services to 401(k)/profit-sharing plan sponsors. As part of these services, Horizon will assist the plan in choosing the mutual funds it offers to plan participants, develop a series of model portfolios for the plan that meet the plan's risk tolerances, objectives and time horizons, provide education and a quarterly newsletter to plan participants, and monitor the performance of funds selected for the plan as a whole.

Other Services

Horizon develops investment strategies, using a defined stock selection process, which it licenses to an unaffiliated third party that utilizes those strategies for the purpose of creating unit investment trusts. Horizon is paid a licensing fee for those services based on the assets invested in the unit investment trusts. The license fee is billed quarterly in arrears.

Horizon also provides investment advisory services to an unaffiliated third party who utilizes those services for the purpose of creating unit investment trusts. Horizon is paid an advisory fee based on the assets deposited into the unit investment trust at the end of its open period.

Horizon developed a methodology for creating equity indices for a sponsor of stock market indices. Horizon receives a portion of the licensing fees paid to the sponsor of the equity indices for the use of the indices in products created by third parties.

Related Businesses

Horizon Publishing Company, LLC ("HPC") the successor company to Dow Theory Forecasts, Inc., is also wholly owned by HMS and is in the business of publishing the following newsletters: Dow Theory Forecasts, DRIP Investor, and Upside. These newsletters are of a regular and general circulation and provide investment advice on securities that is of an impersonal nature and that is not tailored to the particular needs of any subscriber. Subscribers to these newsletters also are eligible to access websites that contain additional security analytics and back issues of these publications. Like the newsletter, these websites do not provide personalized investment advice. Horizon may pay for a subscription to a newsletter published by HPC for certain existing or prospective clients.

Horizon has entered into several agreements with HPC whereby, from time to time, HPC provides to Horizon a variety of services and products, including access to lists of subscribers to the newsletters published by HPC, the use of the Quadrix System ("Quadrix"), and the use of HPC personnel.

As of February 28, 2011, Horizon's assets under management were as follows (in millions):

| | |
|-------------------------------|--------------|
| Discretionary Assets | \$151.8 |
| Non-discretionary Assets | <u>\$1.5</u> |
| Total Assets Under Management | \$153.3 |

Item 5 - Fees and Compensation

All fees are subject to negotiation.

Horizon charges a customary annual fee for all discretionary clients of 1.25% of the first \$2 million of account valuation, 1.10% on the account valuation between \$2 million and \$4 million, 0.95% on the account valuation between \$4 million and \$6 million and 0.80% on assets over \$6 million.

For the **Dividends Plus** strategy, a discretionary strategy focused on dividend paying stocks, Horizon charges an annual fee of 1.05% of the first \$2 million of account valuation, 0.90% of the account valuation between \$2 million and \$4 million, 0.75% of the account valuation between \$4 million and \$6 million and 0.60% of assets over \$6 million.

Horizon charges all non-discretionary clients a customary annual fee of 0.80% of the first \$2 million of account valuation, 0.70% on the account valuation between \$2 million and \$4 million, 0.60% on the account valuation between \$4 million and \$6 million and 0.50% on assets over \$6 million.

For investment sub-advisory clients and unaffiliated wrap programs, Horizon charges an annual fee ranging from 0.40% to 0.60% of the assets in such accounts. Sub-advisory fees may be negotiated depending on account size.

For providing the model portfolios to the program sponsor, Horizon charges an annual licensing fee ranging from 0.30% to 0.50% of assets under management depending on the model portfolio selected.

Horizon's fee for providing 401(k)/profit sharing services range from 0.40% to 0.50% of the market value of the aggregate assets of the plan, with a minimum annual fee of \$2,500.

The specific manner in which fees are charged by Horizon is established in a client's written agreement with Horizon. Horizon's fees for providing individual investment advisory services are based upon the asset value of the portfolio as of the last calendar day of the month immediately preceding each three-month billing period. Fees are calculated quarterly in advance and either billed to the client or deducted by the custodian, upon written authorization from the client. Management fees are not prorated for each capital contribution and withdrawal made during the calendar quarter. Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable.

Either Horizon or its client generally is able to terminate their advisory agreement on 30 days notice.

Horizon's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses, which are incurred by the client. Clients may incur certain charges imposed by custodians, brokers, and other third parties, such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to Horizon's fee, and Horizon shall not receive any portion of these commissions, fees, and costs.

Item 12 further describes the factors that Horizon considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).

Horizon may provide advice to clients regarding investments in mutual fund shares. Each mutual fund pays fees, borne by its shareholders, to the manager of the mutual fund. Horizon bases its management fee on a percentage of the market value of all assets in the client's account, including the value of mutual fund shares. As a result, a client whose portfolio is invested in a mutual fund will bear the client's proportionate share of the mutual fund's fees and expenses and pay a management fee to Horizon for the same investment. The client could invest in the same mutual fund without paying a fee to Horizon, but would then not have the benefit of the advice, review and

monitoring Horizon provides. If Horizon ever recommends that a client invest in a mutual fund that Horizon manages, Horizon will credit the account by the amount of the advisory fee that the Horizon-managed mutual fund charged the client's account.

Item 6 – Performance-Based Fees and Side-By-Side Management

Horizon does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

Item 7 – Types of Clients

Horizon generally provides investment advice to individuals, high net worth individuals, corporate pension and profit sharing plans, trusts, estates, foundations, and corporations or business entities.

Horizon also provides investment advice to organizations that sponsor or license the use of certain portfolios/indices in connection with the creation of unit investment trusts and/or equity-based index products.

The minimum asset size for a direct new account is \$300,000. The minimum asset size for a new account obtained through a third party financial intermediary is \$100,000. The minimum size of a 401(k)/ profit-sharing plan that Horizon will perform services for is \$500,000. Horizon may waive these minimum requirements at its sole discretion or under the appropriate circumstances.

Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss

Investing in securities involves risk of loss that clients should be prepared to bear.

Horizon seeks to maximize the total return of clients' portfolios while maintaining a risk profile consistent with their investment objectives by focusing on attractively valued stocks that Horizon believes have the potential to beat Wall Street's expectations. When appropriate, Horizon may also include bonds, bond funds, ETFs, and stock funds in client portfolios.

As part of its fundamental research, Horizon may rely upon specific sources of information, including general economic and industry data as provided by the U.S. Government, various trade associations and other sources, brokerage research reports, and published corporate financial data such as annual reports, 10Ks, and quarterly statements, as well as direct interviews with company management, financial newspapers and magazines, inspections of corporate activities, prospectuses, filings with the Securities and Exchange Commission, research materials prepared by others, corporate rating services, company press releases and the Quadrix System. Horizon also reviews traditional financial data such as price-sales and earnings ratios, returns on assets and equity, gross and net margins, inventory turns, book value, and debt-equity ratios. Horizon also relies on analysis of a company's revenue growth potential.

Horizon's stock-selection methodology generally focuses on those stocks that rank well in the Quadrix System, a proprietary stock rating system licensed from HPC. The Quadrix System screens more than 4,000 companies based on six areas - value, quality, momentum, financial strength, earnings estimates and performance. Within each of these six areas are variables (currently more

than 80 in all) that help formulate the scoring for that particular area. Once the scores are computed for each of the six areas, a single composite score is computed based on a weighting of the six areas. The Quadrix System is designed to provide a quantitative, disciplined, and consistent approach to ranking stocks based on a variety of important criteria.

Once the universe of potential stock investments has been narrowed by the Quadrix System, Horizon generally looks for companies it believes possess solid fundamentals, and for which future prospects appear not to be fully realized currently by Wall Street. Some catalysts that may positively impact these stocks are expanding profit margins, positive earnings revisions, new products, management changes and financial restructurings. Horizon does not seek to buy "cheap stocks." It seeks to buy strong companies that rank well in Quadrix at reasonable prices.

Our research process can be summarized in five steps: 1) We look for stocks that score well in our Quadrix system. To get past this first step, stocks must meet certain threshold scores in our Quadrix system in terms of Overall score as well as in important subcategory (Value, Performance, etc.) scores. 2) We investigate those companies rigorously. We consider whether the Quadrix numbers have been distorted by mergers or aggressive accounting, whether earnings and cash flow are telling a similar story, or any red flag that Quadrix is not telling the whole story. 3) We examine company and industry prospects, trying to look forward. Like all ranking systems, Quadrix tends to be backward-looking. So we want to have an understanding of the company prospects, which can help put the Quadrix scores in perspective. We generally avoid companies with the most uncertain outlooks. We are not necessarily looking for the fastest growers or the cheapest stocks. Rather, we are looking for companies in the sweet spot of growth at a good price. 4) We reconsider valuation. Valuations are a big part of Quadrix, but we want to be doubly sure that the bright picture painted by Quadrix and other indicators is not already reflected in the stock. 5) We look for a catalyst. What is it we think this stock has that's better than other stocks that also score well in Quadrix? What is it about this company's position that could drive superior returns over the next 12 months (which is generally the time frame we have in mind – 12-month performance – when buying stocks)?

Our buy discipline is driven primarily by our Quadrix and fund rating systems. Indeed, an important first screen in our investment process requires that investments meet certain threshold scores in our Quadrix stock rating system before they are even considered for client portfolios. Using a powerful quantitative system such as Quadrix in a consistent and disciplined way provides an investment process that is easily and efficiently replicated over time. Also, the consistent use of our five-step investment process lends a discipline to our buy process.

Not surprisingly, our sell discipline is also driven by Quadrix. We run our Quadrix model on a weekly basis. Thus, we are getting regular quantitative feedback on our investments. If we see Quadrix scores deteriorating, this is an important red flag and a reason to investigate further. Typically, we will sell an investment if Quadrix scores deteriorate below a certain level. We will also sell if the investment surprises us and is contra to our buy thesis. Also, the constant competition for investments to get into our fairly concentrated portfolios (on the stock side, for example, we typically hold portfolios of 35-45 stocks) lends a certain discipline on the sell side. Indeed, good is not good enough. For example, if a stock is no longer among our 35-45 best ideas, we sell.

Horizon's equity strategies have maximum equity exposure greater than 65%. These equity strategies include Balanced, Best Ideas, Best Ideas Conservative, Catholic Values, Conservative Equity, Core Opportunities, Core Opportunities International, Core Opportunities International 80, Dividend Plus, Enhanced Domini Social, Large Cap, Upside and Mutual Fund. Horizon's Balanced

strategies introduce an income component by increasing the exposure to fixed income instruments utilizing bond mutual funds and ETFs. The Balanced strategies have a maximum equity exposure of 65% or less and include Best Ideas Plus Income, Quantitative Dividend, and Income strategies.

Horizon's investment advice takes the form of long term purchases (securities held at least a year) and short term purchases (securities sold within a year) and trading (securities sold within 30 days). Trading is not a typical Horizon strategy, since it involves a higher degree of risk. This strategy will be used when certain market conditions may trigger sales of recently purchased securities as a result of mergers, acquisitions or any new information which significantly changes the outlook for the company.

Within a specific investment strategy, many of the same securities may be held in/by all client accounts, although the quantities held may differ, reflecting Horizon's evaluation of the risk and potential of each holding to the client.

Equity Strategies

The **Balanced** strategy, with a maximum equity exposure of 70%, typically holds 45 to 55 of Horizon's favorite stocks for 12-month performance. The equity portion of the portfolio typically is 50% to 60% large cap stocks and 40% to 50% small and midcap stocks. Initial individual positions are approximately equal weighted and are typically not allowed to account for more than 5% of an investor's portfolio. Certain sectors are over weighted or underweighted in the portfolio based on opportunities available in individual stocks, although it is unlikely that one sector will account for more than 40% of the total portfolio. The maximum equity exposure may be reduced based on macro market conditions and the availability of attractive stock opportunities. On the fixed-income side, Horizon focuses on short-term maturity vehicles while focusing on building a diversified bond portfolio via low cost open-end mutual funds and ETFs.

The **Best Ideas** strategy is an all-equity portfolio with 35 to 45 of Horizon's favorite stocks for 12-month performance. The portfolio typically is 40% to 60% large-cap stocks and 40% to 60% small/midcap stocks. Initial individual positions are approximately equal weighted and are typically not allowed to account for more than 5% of an investor's portfolio. Certain sectors are over weighted or underweighted in the portfolio based on opportunities available in individual stocks, although it is unlikely that one sector will account for more than 40% of the total portfolio. While the portfolio may be 100% invested in stocks, cash and fixed income investments may be held depending on macro market conditions and the availability of attractive stock opportunities.

The **Best Ideas Conservative** strategy, with a maximum equity exposure of 80%, typically holds 35 to 45 of Horizon's favorite stocks for 12-month performance. The equity portion of the portfolio is typically 40% to 60% large-cap stocks and 40% to 60% small/midcap stocks. Initial individual positions are approximately equal weighted and are typically not allowed to account for more than 5% of an investor's portfolio. Certain sectors are over weighted or underweighted in the portfolio based on opportunities available in individual stocks, although it is unlikely that one sector will account for more than 40% of the total portfolio. The maximum exposure to equities may be reduced based on macro market conditions and the availability of attractive stock opportunities. On

the fixed-income side, Horizon focuses on short-term maturity vehicles while focusing on building a diversified bond portfolio via low cost open-end mutual funds and ETFs.

The **Catholic Values** strategy is an all-equity enhanced index strategy. Horizon believes its Catholic Values strategy can achieve out-performance by applying time-tested quantitative overlays to the MSCI USA Catholic Values Index. The 40 highest-scoring stocks in the index in terms of Quadrix Overall Score typically make it into the portfolio. On the initial investment selection, no sector can account for more than 25% of the total portfolio. While the portfolio may be 100% invested in stocks, cash and fixed income investments may be held depending on macro market conditions.

The **Conservative Equity** strategy, with a maximum equity exposure of 80%, typically holds 45 to 55 of Horizon's favorite stocks for 12-month performance. The equity portion of the portfolio typically is 50% to 60% large cap stocks and 40% to 50% small and midcap stocks. Initial individual positions are approximately equal weighted and are typically not allowed to account for more than 5% of an investor's portfolio. Certain sectors are over weighted or underweighted in the portfolio based on opportunities available in individual stocks, although it is unlikely that one sector will account for more than 40% of the total portfolio. The maximum exposure to equities may be reduced based on macro market conditions and the availability of attractive stock opportunities. On the fixed-income side, Horizon focuses on short-term maturity vehicles while focusing on building a diversified bond portfolio via low cost open-end mutual funds and ETFs.

The **Core Opportunities** strategy is an all-equity strategy with 45 to 55 of Horizon's favorite stocks for 12-month performance. The portfolio typically is 50% to 60% large cap stocks and 40% to 50% small and midcap stocks. Initial individual positions are approximately equal weighted and are typically not allowed to account for more than 5% of an investor's portfolio. Certain sectors are over weighted or underweighted in the portfolio based on opportunities available in individual stocks, although it is unlikely that one sector will account for more than 40% of the total portfolio. While the portfolio may be 100% invested in stocks, cash and fixed income investments may be held depending on macro market conditions and the availability of attractive stock opportunities.

The **Core Opportunities International** strategy is an all-equity strategy with 50 to 60 of Horizon's favorite stocks for 12-month performance. The strategy has an international exposure of up to 20% of the portfolio. International exposure is achieved primarily through investment in international mutual funds and exchange-traded funds. The U.S. portion of the portfolio typically is 50% to 60% large cap stocks and 40% to 50% small and midcap stocks. Initial individual positions are approximately equal weighted and are typically not allowed to account for more than 5% of an investor's portfolio. Certain sectors are over weighted or underweighted in the portfolio based on opportunities available in individual stocks, although it is unlikely that one sector will account for more than 40% of the total portfolio. While the portfolio may be 100% invested in stocks, cash and fixed income investments may be held depending on macro market conditions and the availability of attractive stock opportunities.

The **Core Opportunities International 80** strategy, with a maximum equity exposure of 80%, typically holds 50 to 60 of Horizon's favorite stocks for 12-month performance. The strategy also has international exposure of up to 20% of the equity portion of the portfolio. International

exposure is achieved primarily through investment in international mutual funds and exchange-traded funds. The U.S. equity portion of the portfolio is typically 50% to 60% large cap stocks and 40% to 50% small and midcap stocks. Initial individual positions are approximately equal weighted and are typically not allowed to account for more than 5% of an investor's portfolio. Certain sectors are over weighted or underweighted in the portfolio based on opportunities available in individual stocks, although it is unlikely that one sector will account for more than 40% of the total portfolio. The maximum exposure to equities may be reduced based on macro market conditions and the availability of attractive stock opportunities. On the fixed-income side, Horizon focuses on short-term maturity vehicles while building a diversified bond portfolio via low cost open-end mutual funds and ETFs.

The **Dividend Plus** strategy is an all-equity approach that focuses on dividend-paying stocks with the best total-return potential. Horizon believes stocks with dividend yields of 2% to 4%, good dividend growth, and better-than-average price appreciation potential are the best dividend investments. Horizon's Dividends Plus strategy attempts to find these stocks using a methodology that focuses on finding dividend-paying stocks that score well in Horizon's Quadrix stock-rating system. On the initial investment selection, apart from utilities, no industry group can account for more than 15% of the security holdings in the portfolio. Changes to the portfolio occur on a quarterly basis when a stock's Quadrix score falls below a certain level.

The **Enhanced Domini Social** strategy is an enhanced index strategy. Horizon believes its Enhanced Domini Social strategy can achieve out-performance by applying time-tested quantitative overlays to the MSCI KLD 400 Social Index. The 40 highest-scoring stocks in the index in terms of Quadrix Overall Score typically make it into the portfolio. On the initial investment selection, sector can account for more than 25% of the total portfolio. While the portfolio may be 100% invested in stocks, cash and fixed income investments may be held depending on macro market conditions.

The **Large Cap** strategy is an all-equity portfolio consisting of 25 to 35 large-cap stocks (market caps typically above \$8 billion) that offer the best total-return potential over the next 12 months. Initial individual positions are approximately equal weighted and are typically not allowed to account for more than 5% of an investor's portfolio. Certain sectors are over weighted or underweighted in the portfolio based on opportunities available in individual stocks, although it is unlikely that one sector will account for more than 40% of the total portfolio. While the portfolio may be 100% invested in stocks, cash and fixed income investments may be held depending on macro market conditions and the availability of attractive stock opportunities.

The **Upside Plus** strategy is an all-equity portfolio consisting of Horizon's favorite 25 to 35 small and mid-cap stocks that offer the best total-return potential over the next 12 months. Initial individual positions are approximately equal weighted and are typically not allowed to account for more than 5% of an investor's portfolio. Certain sectors are over weighted or underweighted in the portfolio based on opportunities available in individual stocks, although it is unlikely that one sector will account for more than 40% of the total portfolio. While the portfolio may be 100% invested in stocks, cash and fixed income investments may be held depending on macro market conditions and the availability of attractive stock opportunities.

The **Mutual Fund** strategy represents an all-equity strategy that is too small for us to manage using individual stocks. The majority of positions (and, in many cases, all of the positions) consist of open-ended mutual funds and exchange-traded funds. We usually create diversified portfolios that cover a number of mutual fund style categories. The maximum exposure to equities may be reduced based on macro market conditions.

Balanced Strategies

The **Best Ideas Plus Income** strategy blends two philosophies -- owning Horizon's best stock ideas while still generating income from the portfolio from a fixed-income component. The Best Ideas Plus Income strategy, with a maximum equity exposure of 65%, typically holds 35 to 45 of Horizon's favorite stocks for 12-month performance. The equity portion of the portfolio is typically 40% to 60% large-cap stocks and 40% to 60% small/midcap stocks. Initial individual positions are approximately equal weighted and are typically not allowed to account for more than 5% of an investor's portfolio. Certain sectors are over weighted or underweighted in the portfolio based on opportunities available in individual stocks, although it is unlikely that one sector will account for more than 40% of the total portfolio. The maximum exposure to equities may be reduced based on macro market conditions and the availability of attractive stock opportunities. On the fixed-income side, Horizon focuses on short-term maturity vehicles while building a diversified bond portfolio via low cost open-end mutual funds and ETFs.

The **Quantitative Dividend** Strategy is a "balanced" investment approach focusing on dividend-paying stocks and fixed-income investments. The equity side of the portfolio is capped at 65%. On the equity side, 40 stocks are selected using a quantitative methodology that spotlights dividend-paying stocks that score well in our firm's Quadrix® and "BSD" scoring systems. On the initial investment selection, no sector can comprise more than 20% of the entire portfolio. Stocks with a market cap less than \$3 billion are limited to a maximum 40% of the portfolio. Initial individual positions are approximately equal weighted. The maximum exposure to equities may be reduced based on macro market conditions. Stocks are typically held for 12 months, at which time the equity side is rebalanced and reconstituted depending on the results of our quantitative methodology. Changes to the equity side of the portfolio may occur more frequently than annually in the event of takeovers or other corporate actions. On the fixed-income side, Horizon focuses on short-term maturity vehicles while building a diversified bond portfolio via low cost open-end mutual funds and ETFs.

The **Income** strategy focuses on fixed-income investments and may include individual bonds, bond mutual funds, bond ETFs, and cash/money markets. The strategy has a maximum equity exposure of 30% and tends to focus more on large-cap stocks, with smaller exposure to small and mid-cap stocks.

Risk of Loss

Although Horizon makes every effort to preserve each client's capital and achieve real growth of wealth, investing in the stock markets involves risk of loss that each client should be prepared to bear. Investing in financial markets involves exposure to political, economic and currency risks.

In the equity and balanced strategies, we build diversified portfolios of individual common stocks that tend to have attractive risk characteristics as broadly defined. In addition to large and mid-sized Company stocks, Horizon strategies may contain small-sized and foreign stocks, which tend to be more volatile. Small-sized and foreign stocks have various sources of risk:

- **Small-sized Company Risk** - Accounts invested in a small-cap stocks are subject to small company risk. Although the small-cap strategies seeks to reduce risk by investing in a diversified portfolio, investing in smaller, and often newer, companies involves greater risk than investing in larger, more established companies. Smaller and newer companies often have limited product lines, markets, management personnel, research and/or financial resources. The securities of small companies, which may be thinly capitalized, may not be as marketable as those of larger companies. Therefore the securities of these smaller, newer companies may be subject to more abrupt or erratic market movements than the securities of larger companies or the market averages in general.
- **Foreign Securities Risk** - Investments in securities, including ADRs, of non-U.S. issuers involve certain additional investment risks different from those of U.S. issuers. These risks include: possibility of political or economic instability within a particular country, possibility of disruption to international trade patterns, possibility of currency risk, possibility of currency exchange controls, imposition of foreign withholding taxes, seizure or nationalization of foreign deposits or assets, and adoption of adverse foreign government trade restrictions. In addition, there is a possibility of expropriation, nationalization, confiscatory taxation or diplomatic developments that could affect investments within a country. There may be less publicly available information about a non-U.S. company than about a U.S. company. Sometimes non-U.S. companies are subject to different accounting, auditing, and financial reporting standards, practices, and requirements than U.S. companies. There is generally less government regulation of non U.S. stock exchanges, brokers and listed companies abroad, which may result in less transparency with respect to a company's operations. The absence of negotiated brokerage in certain countries may result in higher brokerage fees.

Because of the active management of these strategies the annual turnover typically ranges from 80% to 110%. Though the individual stocks are carefully analyzed and researched there is always the risk of loss in any particular issue. Stocks generally fluctuate in value more than bonds and may decline significantly over short time periods. The value of a stock in which a portfolio invests may decline due to general weakness in the stock market or because of factors that affect a company or a particular industry.

Horizon utilizes bond mutual funds and ETFs for the fixed income component of our equity and balanced strategies. In bond mutual funds and ETFs risk of loss of principal is lower compared to equity strategies.

The underlying debt securities in the bond mutual funds and ETFs have two main sources of risk:

- Interest rate risk is the risk that a rise in interest rates will cause the price of a debt security held in the mutual fund or ETF to fall. Securities with longer maturities typically suffer greater declines than those with shorter maturities.
- Credit risk is the risk that an issuer of a debt security will default (fail to make scheduled interest or principal payments), potentially reducing income distributions and market values. This risk is increased when a security is downgraded or the perceived creditworthiness of the issuer deteriorates.

Defined Contribution Plans

For 401(k)/profit-sharing plans, Horizon provides asset allocation services that result in the creation of model portfolios that may be chosen by plan participants. To prepare and continuously update the model portfolios, Horizon utilizes HPC's research and databases. In that regard, Horizon applies the following criteria in selecting individual investment options:

- Regulatory oversight: Each investment manager of the mutual fund should be a regulated bank, an insurance company, a mutual fund organization, or a registered investment adviser.
- Correlation to style or peer group: The fund should be highly correlated to the asset class of the investment option. This is one of the most critical parts of the analysis since most of the remaining due diligence involves comparisons of the fund to the appropriate peer group.
- Performance relative to a peer group: The fund's performance should be evaluated against the peer group's median fund return, for 1-, 3- and 5-year cumulative periods.
- Performance relative to assumed risk: The fund's risk-adjusted performance (Alpha and/or Sharpe Ratio) should be evaluated against the peer group's median risk-adjusted performance.
- Expense ratios/fees: The fund's fees should not be in the bottom quartile (most expensive) of its peer group.
- Stability of the organization: There should be no perceived organizational problems in connection with the investment adviser of the fund.

Item 9 – Disciplinary Information

Horizon has no disclosures pursuant to this Item.

Item 10 – Other Financial Industry Activities and Affiliations

See Item 4 above for a discussion of Horizon's affiliation with other related companies in the financial industry.

Certain officers of Horizon serve as officers and/or in editorial roles to newsletters published by HPC and in that capacity may provide impersonalized investment advice through print or electronic media.

Horizon has entered into several agreements with HPC whereby, from time to time, HPC provides to Horizon a variety of services and products, including access to lists of subscribers to the newsletters published by HPC, the use of Quadrix, and the use of HPC personnel.

Item 11 – Code of Ethics

Horizon has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at Horizon must acknowledge the terms of the Code of Ethics annually, or as amended.

Horizon anticipates that, in appropriate circumstances, consistent with clients' investment objectives, it will cause accounts over which Horizon has management authority to effect, and will recommend to investment advisory clients or prospective clients, the purchase or sale of securities in which Horizon, its affiliates and/or its employees, directly or indirectly, have a position of interest. Horizon's employees and persons associated with Horizon may trade for their own accounts in securities which are recommended to and/or purchased for Horizon's clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of Horizon will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would not materially interfere with the best interest of Horizon's clients. In addition, the Code requires pre-clearance of certain transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between Horizon and its clients.

Horizon's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting Kristen Faso at 219-852-3215 or kfaso@horizoninvestment.com.

Certain officers of Horizon are responsible for managing the investment account of HMS, Horizon's parent, and may, from time to time, manage the personal assets of an officer or employee of Horizon. However, for the HMS account and personal accounts of Horizon officers and employees under Horizon's management, Horizon will treat those accounts like any other client account. Accordingly, those accounts will not receive any favorable treatment.

HPC, a publisher of financial newsletters and an affiliate of Horizon, from time to time, may make recommendations in its newsletters to buy or sell small-capitalized securities. A small-capitalized security is defined as meeting one of the following criteria, 1) a market capitalization of less than three hundred million dollars or 2) a three-month average daily trading volume of less than 200,000 shares, and a market capitalization of less than one billion dollars. HPC's publication of these recommendations of small-capitalized securities may affect their market price after being made available to HPC subscribers. These small-capitalized securities may also be held in Horizon

client portfolios. To reduce potential conflicts that may arise as a result of Horizon knowing that HPC's recommendations might affect the market, it is Horizon's policy for client accounts to be traded no earlier than the beginning of the second full day after HPC's recommendations of small-capitalized securities are made available to HPC subscribers. While this might cause a short-term disadvantage to those Horizon clients that hold those small-cap stocks, Horizon believes that those clients will be advantaged over the long term because of Horizon's affiliation with HPC and its ability to use Quadrix.

Horizon provides portfolio consultation services to organizations that sponsor or license the use of certain portfolios/indices in connection with the creation of unit investment trusts and/or equity-based index products. For providing these consultation services, Horizon receives a fee directly from these organizations based on the amount of assets invested in the underlying product by the public. In providing investment advisory services to its clients, Horizon may invest certain clients in these products. As a result, a client whose account is invested in one of these products will bear the client's proportionate share of the fees and expenses associated with that product and pay a management fee to Horizon for the same investment. Horizon may have an incentive to invest a client in one of these products because it is paid indirectly as a result of the client's investment; however, Horizon will not invest a client in such a product unless the product is appropriate for that client. In many cases, the client could invest in the product without paying a management fee directly to Horizon, but would then not have the benefit of the advice, review and monitoring Horizon provides.

Horizon has contracted to provide model portfolios of its investment strategies to various third-parties for use on their managed account platforms. For the investment strategies available as an investment choice on those platforms, Horizon provides model portfolios and is required to provide the sponsor information on any changes to those model portfolios when they occur. An appearance of a conflict could exist between providing model changes to platforms and Horizon trading for other client accounts in the same strategy. As a result, Horizon will rotate the timing of when model portfolio changes are provided to the sponsor and when Horizon trades to those other client accounts.

Item 12 – Brokerage Practices

Subject only to any client direction to utilize a particular broker or dealer for execution of transactions in that client's account, Horizon's overriding objective in effecting portfolio transactions is to seek to obtain the best combination of net price and execution under the circumstances. Horizon seeks to achieve this goal by recommending that individual clients open a brokerage account with Charles Schwab & Co. or TD Ameritrade. Although Horizon believes that Schwab and TD Ameritrade each are capable of offering the best combination of custodial service and ability to obtain best net prices and execution services in effecting portfolio transactions, it is possible that the exclusive use of a single broker may cause a client's account not to achieve best execution, may cause higher costs or may preclude a client from participating in block or other trades.

Because of the extent of the existing Horizon client accounts that currently utilize TD Ameritrade, TD Ameritrade has agreed to provide 90-days of free trading for new accounts and thereafter fix its commission rate for Horizon clients at \$8.00 per trade.

Horizon does not receive any direct or indirect compensation from either Schwab or TD Ameritrade (except currently for software programs that provide execution and client account services) in exchange for recommending that clients use these brokers. It is possible, however, that once the amount of Horizon assets under custody with TD Ameritrade reaches \$100 million, TD Ameritrade will provide Horizon with additional services, which could include research, additional trading support and back-office software.

In some instances Horizon may be retained under a so-called "wrap fee" arrangement. Under this arrangement, the broker-dealer pays Horizon's management fees at the direction of the client, executes the client's portfolio transactions without commission charges, monitors Horizon's performance, and may also act as custodian, or provide some combination of these or other services, all for a single fee. In evaluating such a program, a client should understand the transactions are effected "net" and a portion of the wrap fee is generally considered as in lieu of commissions. Trades will be generally executed only with the referring broker, so as to avoid incurring the incremental brokerage costs that would be incurred by use of other brokers.

As indicated above, individual clients may direct Horizon (subject to certain conditions which may from time to time be imposed by Horizon), or Horizon may be required pursuant to an investment sub-advisory agreement, to effect portfolio transactions through particular brokers or dealers. The custody of client assets by a broker-dealer will be treated by Horizon as a direction by the client to execute all transactions (i.e., an instruction to utilize the broker or dealer for all transactions) or may leave Horizon with discretion to execute a transaction through another broker if the directed broker cannot execute it.

Clients sometimes may wish to direct brokerage to a particular broker or dealer in recognition of custodial or other services (including, in some cases, referral of the client to Horizon for investment advisory services) provided to the client by the broker or dealer. A client who chooses to direct the use of a particular broker or dealer, including a client who uses a broker or dealer as custodian of the client's assets (e.g., Schwab or TD Ameritrade), should consider whether such a direction may result in certain costs or disadvantages to the client, either because the client may pay higher commissions on some transactions than might otherwise be attainable by such broker, or may receive less favorable execution of some transactions, or both. A client who directs brokerage may also be subject to the disadvantages discussed below regarding allocation of new issues and aggregation of orders. In determining whether to instruct Horizon to utilize a particular broker or dealer in recognition of such services, the client may wish to compare the possible costs or disadvantages of such an arrangement with the value of the custodial or other services provided.

Where a client directs Horizon (or Horizon is contractually required) to use a particular broker or dealer with respect to all transactions for that client's account (including use of that broker as custodian of the assets in the account), the client may also be disadvantaged in obtaining allocations of new issues of securities which the firm purchases or recommends for purchase in other client accounts. It is the Horizon's policy that directed brokerage accounts not participate in the allocations of new issues.

Certain affiliated accounts may trade in the same securities with client accounts on an aggregated basis when consistent with Horizon's obligation of best execution. In such circumstances, the affiliated and client accounts will share commission costs equally and receive securities at a total average price. Horizon will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order. Completed

orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a pro rata basis. Any exceptions will be explained on the Order.

It is Horizon's policy that the firm will not affect any principal or agency cross securities transactions for client accounts. Horizon will also not cross trades between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated hedge fund and another client account. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer.

Aggregation of Orders and Trade Allocation

It is Horizon's practice, when feasible, to aggregate for execution as a single transaction orders for the purchase or sale of a particular security for the accounts of several clients (including an account of an officer or director of Horizon or a client in which a director, officer or employee of Horizon may have an interest, which could include a majority or greater interest) to seek a more advantageous net price. Shares purchased and sold in aggregated orders are generally allocated on a random basis among the accounts that participated in the aggregated transaction.

From time to time, Horizon may be presented with the opportunity to participate in underwritten offerings of securities on behalf of its clients. Horizon invests in those securities only if they are believed to be appropriate long-term investments for particular client accounts. Horizon identifies client accounts for which an underwritten security would be an appropriate long-term investment in the same way that all investment decisions are made for client accounts. Horizon does not attempt to take advantage of any short-term trading opportunities that may be available in connection with underwritten securities.

Horizon may be unable to purchase for client accounts enough shares of a security in an underwritten offering to fill the needs of all client accounts for whom the security would be an appropriate investment. When that happens, Horizon generally allocates the available securities pro rata among eligible accounts in proportion to their indications of interest. However, cash balances, account liquidations, minimum position size, small lot orders, and the need to raise cash for a particular account may result in exceptions to the normal allocation procedures. Further, those clients who have directed Horizon to execute and settle their trades through a particular broker generally will not be able to share in an allocation received by Horizon from a broker other than the specific directed broker selected by the client.

Software and Support Provided by Financial Institutions

Horizon may receive from TD Ameritrade and Charles Schwab, without cost to Horizon, computer software and related systems support, which allow Horizon to better monitor client accounts maintained at TD Ameritrade and Charles Schwab. Horizon may receive the software and related support without cost because Horizon renders investment management services to clients that maintain assets at TD Ameritrade and Charles Schwab. The software and related systems support

may benefit Horizon, but not its clients directly. In fulfilling its duties to its clients, Horizon endeavors at all times to put the interests of its clients first. Clients should be aware, however, that Horizon's receipt of economic benefits from a broker-dealer creates a conflict of interest since these benefits may influence Horizon's choice of broker-dealer over another broker-dealer that does not furnish similar software, systems support, or services.

There is no direct link between Horizon's participation in the program and the investment advice it gives to its clients, although Horizon receives economic benefits through its participation in the program that are typically not available to TD Ameritrade and Charles Schwab retail investors. These benefits include the following products and services (provided without cost or at a discount): duplicate client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving advisor participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts); the ability to have advisory fees deducted directly from client accounts; access to an electronic communications network for client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to WWP by third party vendors.

Item 13 – Review of Accounts

Individual client accounts are monitored on an ongoing and continuous basis for performance, outlook and suitability in light of each account's investment objective. Reviews may be conducted more frequently for new accounts, if there is a change in the account's investment objective or if there is a change in the assets under management in the account. The reviews of accounts are performed among the three members of the firm's research department. The number of accounts per reviewer varies based upon the complexity of each account under management, as well as the other responsibilities of each member. The members of the research department will make specific buy and sell recommendations, but the final discretionary investment decisions (e.g., asset allocation and security decisions) are made primarily by Richard Moroney, Horizon's Chief Investment Officer. Horizon reviews its asset allocation recommendations, including the mutual funds that comprise those recommendations, for 401(k)/profit-sharing plan clients on an ongoing basis.

Horizon provides clients with quarterly and annual written reports that display, among other things, specific account performance and market value for each portfolio holding. Horizon meets periodically with 401(k)/profit-sharing clients to discuss plan funds, performance and asset allocation models.

Item 14 – Client Referrals and Other Compensation

If a client is introduced to Horizon by an unaffiliated solicitor, Horizon may pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3 of the Advisers Act and any corresponding state securities law requirements. Any such referral fee shall be paid solely from Horizon's investment management fee, and shall not result in any additional charge to the client. If the client is introduced to Horizon by an unaffiliated solicitor, the solicitor shall provide the client with a copy of Horizon's written disclosure statement which meets the requirements of Rule 204-3

of the Advisers Act and a copy of the solicitor's disclosure statement containing the terms and conditions of the solicitation arrangement including compensation.

As part of providing services to the sponsor/purveyor of a specific index, Horizon has entered into a revenue-sharing arrangement with an entity that assisted in the creation of the index.

Horizon works with representatives of unaffiliated financial intermediaries to provide investment management services to their clients. From time to time, Horizon will provide investment-related seminars for the representatives of such intermediaries with the primary purpose to introduce Horizon's investment philosophy, strategies, and process. As an incentive for those intermediaries to attend the seminars, Horizon may pay for and provide continuing education vouchers to the attendees which the attendees may utilize to pay for continuing education required by their profession.

Item 15 – Custody

Clients should receive monthly statements from the TD Ameritrade, Charles Schwab and other qualified custodians that hold and maintain clients' assets. Horizon urges clients to carefully review such statements and compare such official custodial records to the account statements that we provide to clients. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

As a matter of policy and practice, Horizon does not permit employees or the firm to accept or maintain custody of client assets. It is our policy that we will not accept, hold, directly or indirectly, client funds or securities, or have any authority to obtain possession of them, with the sole exception of direct debiting of advisory fees. Horizon will not intentionally take custody of client cash or securities.

Item 16 – Investment Discretion

Horizon usually receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account. When selecting securities and determining amounts, Horizon observes the investment policies, limitations and restrictions of the client for which it advises.

Investment guidelines and restrictions must be provided to Horizon in writing.

Item 17 – Voting Client Securities

Horizon exercises voting authority for certain clients' securities. For all other clients, the client is responsible for voting proxies. When voting proxies, Horizon will make voting decisions in the best interest of clients. Horizon has adopted proxy voting policies and procedures, which are available to clients at any time upon request.

Horizon generally votes in accordance with proxy voting guidelines that it has established. For a matter where the application of the guidelines is unclear, is not covered by the guidelines or where the guidelines call for case-by-case review, Charles Carlson will review the matter. Charles Carlson also is responsible for identifying possible conflicts between a client's interests and Horizon's interests with respect to a proxy vote, so that Horizon votes solely in the best interest of clients.

Clients may also obtain information from Horizon about how Horizon voted any proxies on behalf of their account(s).

Item 18 – Financial Information

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about Horizon's financial condition. Horizon has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.